Nick and Andy discuss market dynamics for Week 158 (January 10, 2026), focusing on the relationship between volatility compression and rising asset prices. When anticipated events fail to materialize—like the expected SCOTUS decision on Friday—markets rally as hedges are sold and rolled forward.

Current Economic Environment Employment data shows "no hiring and no firing" while GDP continues growing strongly (nowcast around 5%, likely settling in the 2% range). This unusual combination suggests a productivity boom, possibly AI-driven, which supports continued asset price appreciation.

Key Market Drivers Andy emphasizes that owning assets is fundamentally a short volatility position. When volatility falls, assets rise—a principle demonstrated both historically and daily. The market remains heavily hedged with out-of-the-money puts trading at premiums to calls.

Policy Developments Two significant Trump administration announcements target bank profitability:

1. **Credit Card Rate Cap**: Proposed 10% interest rate ceiling on credit cards. While potentially unenforceable, this populist measure aims to improve affordability but would likely result in credit card cancellations for riskier borrowers.
2. **Fannie/Freddie Mortgage Purchases**: $200 billion mortgage buying program to reduce mortgage rates and improve housing affordability. This effectively offsets the Fed's $240 billion annual MBS runoff. Expected impact: lower wholesale mortgage spreads, though benefits may be captured by home sellers through higher prices rather than improving true affordability.

Both initiatives represent political positioning ahead of midterm elections, making banks an "easy target" despite their strong recent performance (Capital One up 42% since Trump took office).

Rate Outlook Market now prices only 25% chance of rate cuts over the next two meetings, with the terminal rate at its recent low (two total cuts before a long pause). Fed funds averaging 4.363%, creating potential opportunity in 2-year notes, which are unlikely to break through this level. Walsh gaining favor as potential Fed chair, expected to keep yield curve flatter than alternatives.

Week Ahead

- Bank earnings begin Monday (JPMorgan)
- CPI unlikely to surprise to upside given data calculation methodology
- Treasury auctions (3s, 10s, 30s) will pressure the curve early week, potentially creating buying opportunity in 2-year notes
- SCOTUS decision expected Wednesday—critical market event. Two of six pending cases are market-relevant. Non-announcement would further compress volatility; adverse ruling could trigger significant market disruption if it requires repayment of $250 billion in tariffs.

Positioning Maintaining hedges through Wednesday's SCOTUS decision date despite volatility compression. Considering fading the pricing out of rate cuts. Evaluating exit from financials (XLF) given regulatory headwinds.